# economic trends

June 2013

## *Population jumps, driving housing and consumer activity*

*Alberta's population surged in the first quarter, hitting its highest year-over-year growth rate since 1982. Large inflows of migrants continue to support strong housing activity and consumer spending in the province.*

*The Alberta floods have led to temporary supply disruptions, constraining transportation networks (highways, public transit, rail, pipelines) and likely weighing on economic activity in the immediate term. However, once transportation routes are restored, reconstruction efforts are expected to lead to increased economic activity in the province later this year and into 2014.*

**Key Indicators** — All indicators seasonally adjusted unless otherwise indicated

| Indicator | Latest Month | Value | Change year-over-year (y/y) |
|---|---|---|---|
| Employment (thousands) | May | 2,201 | +2.3% |
| Unemployment Rate | May | 4.8% | +0.4 p.p. |
| CPI Inflation | May | 2.3% | +1.0 p.p. |
| Retail Sales | April | $6.0B | +6.6% |
| Housing Starts (annualized) | May | 41,438 | +23.6% |
| Rigs Drilling (unadjusted) | June | 115 | -17.3% |
| Manufacturing Shipments | April | $6.0B | -3.8% |
| Exports (unadjusted) | April | $8.4B | +1.4% |

**Source:** Statistics Canada, CAODC, CMHC. p.p.= percentage points.

## Alberta Household Sector

### *Alberta's population surges*

Strong interprovincial and international migration gave Alberta the largest population growth among the provinces for the sixth straight quarter. Alberta's year-over-year population growth has been picking up, recording the highest gain since early 1982 at 3.2%. The province's relatively low unemployment rate, combined with high job vacancies and incomes, has continue to encourage people to come to Alberta.

### *Migration triggers labour force entry*

A surge in migrants has resulted in mass entry into the province's labour market (Chart 1). Growth in the labour force has been accelerating, with the second largest one-month increase on record registered in May (+31,000). This has put upward pressure on Alberta's unemployment rate, which rose to a one-year high of 4.8% in May, despite the largest monthly gain in employment in nearly two years (+18,600).

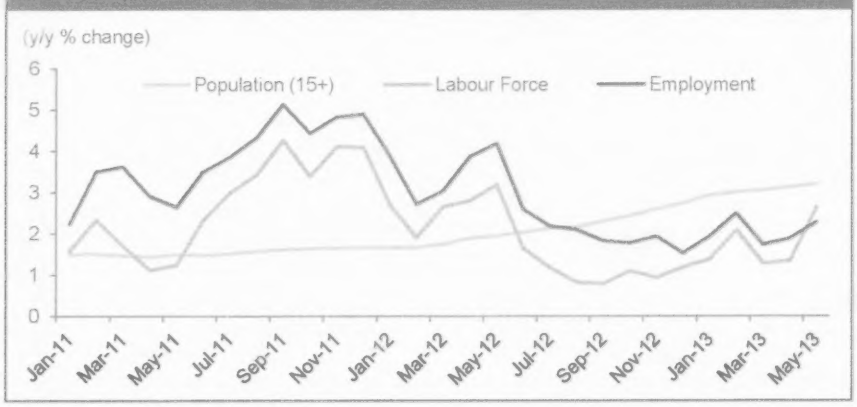
### *Housing starts hit 5-year high*

While Canada's housing market continues to slow, Alberta has seen persistent strength in residential construction (see May's InFocus). A major contributor is the steady flow of inter-provincial migrants, which in turn is related to Alberta's healthy labour market. Alberta housing starts hit a five-year high in May, adding to gains seen earlier this year. Year-to-date growth has been driven by higher activity in all major urban areas with the exception of Calgary, where starts have shrunk 21% year-to-date. Though home prices are picking up, RBC reports that Alberta remains one of the most affordable housing markets in Canada, as higher new and resale prices (mainly in Calgary) have generally been offset by increases in earnings.

### *Strong consumer spending continues, as inflation stays subdued.*

Building off last year's gains, Alberta retail sales have remained strong this year. Year-to-date, sales are up 5.9%, below 2012's 6.9% gain but well ahead of the national increase of just over 1% (Chart 2). Sales at motor vehicle dealers have led this year's gains, rising 18.6%. Meanwhile, consumer price inflation has been relatively subdued so far in 2013 at 1.0% despite jumping to 2.3% in May because of energy costs. Home prices and rents are now adding more to Alberta's inflation rate.

**Chart 1: Growth in Alberta's Labour Market**




**Source:** Statistics Canada

## Alberta Business Sector

*Building activity maintains upward momentum*

Construction spending continued to trend higher in early 2013. In the first quarter, spending on non-residential building construction rose year-over-year for the fifth straight quarter (+3.5%). This was driven by higher industrial activity and the first increase in institutional/government construction since 2010 Q3. Permits point to further strength ahead (Chart 3). The value of building permits in the first four months of 2013 was 23% higher than the same month last year, with particularly strong gains in non-residential (34%) permits. Commercial permits were especially strong over the first four months, coming in just shy of a seven-year high in April. Flood related rebuilding will likely add to construction activity later this year.

*Supply disruption interrupts rebound in manufacturing*

Manufacturing shipments edged down for the second straight month in April (-1.3%), with the latest setback attributed to an unplanned outage at an Alberta oil refinery. Outside the petroleum and coal product sector, both durable and non-durable good shipments have been trending higher after hitting almost a two-year low in December.

*Year-over-year export growth remains modest*

Exports continue to rise slightly ahead of last year's levels, posting increases in the first four months of the year. Energy products, which constitute more than 70% of total exports, remain the primary driver behind recent export growth. Overall, exports are up by only 1.5% year-to-date. Should exports hold near current levels, year-over year growth rates will improve in the second and third quarter of this year due to the drop in exports in mid-2012.

## Global Economy

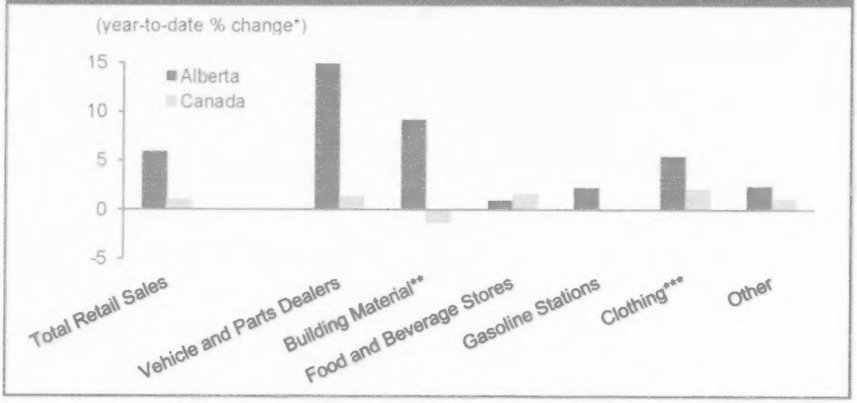
*Monetary policy uncertainty*

A succession of unconventional policy measures announced by various central banks contributed to a rally in stock markets in the last three quarters. After this initial rally, markets have since corrected and have remained volatile, in part because of uncertainty over how central bankers will modify these policies going forward. In the US, markets have declined and the US dollar strengthened as the Federal Reserve suggested it might curtail its US$85 billion per month bond buying as early as this fall. In Europe, the central bank's bond-buying initiative announced last September now faces a constitutional challenge in German courts and has yet to buy a single bond. More successful has been the Bank of Japan, whose more aggressive stance led to a 50% increase in Japanese stock prices and a 20% depreciation in the Japanese Yen through May, contributing to an acceleration in first quarter real GDP growth. However, in June these market trends have partly reversed as the Bank of Japan demonstrated it is content with the level of stimulus already in place.

*Mixed news for the Canadian economy*

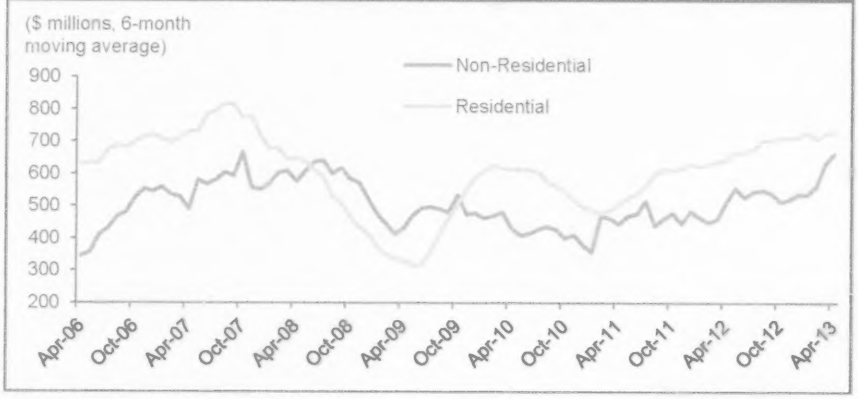
Canada's economy expanded at an annual rate of 2.5% in the first quarter of 2013, the highest growth rate in over a year. Despite the improvement, much of the Canadian economy continued to cool. Real household consumption grew by 1.1% annualized, the lowest growth rate in three years, while private investment dipped by 1.1%. The acceleration in real GDP was almost entirely due to exports, specifically crude oil exports, which increased by 11.0% (non-annualized), as exports recovered from the supply disruptions in 2012.

### Chart 2: Retail Spending Growth




Source: Statistics Canada
* January-April 2013 over January-April 2012
** Building material and garden equipment and supplies dealers
*** Clothing and clothing accessories stores

### Chart 3: Alberta Building Permits




Source: Statistics Canada

# Why has Alberta's lumber industry outperformed

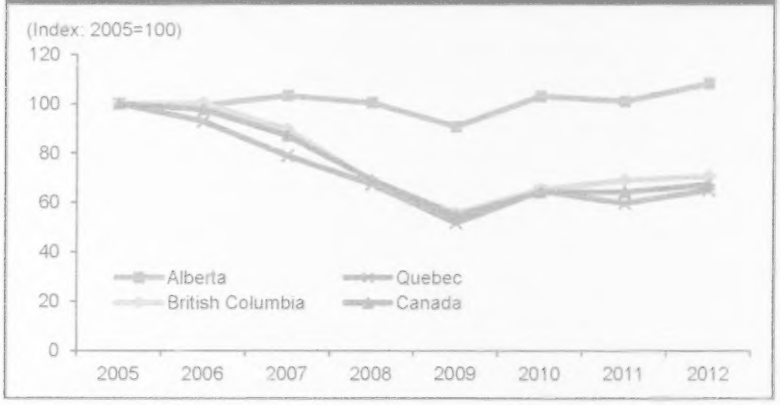
*Although Alberta's lumber industry suffered during the recession and US housing crisis, it has fared exceptionally well when compared with other Canadian provinces. Indeed, while total Canadian lumber production fell 13.7% per year on average during the 2005 to 2009 period, Alberta saw only a 2.3% yearly average decrease. The province regained lost production by 2010, and set a new record in 2012, while the largest lumber producers of BC and Quebec continue to remain well below their pre-recession peaks (Chart 1).*

*Alberta's lumber industry has utilized its production capacity to fill new gaps in domestic demand, while also diversifying its exports to high-growth Asian markets. This Infocus will investigate how these factors have worked together to bolster growth in Alberta lumber production at a time of weakness in the Canadian lumber industry.*

## Alberta maintains production capacity through downturn

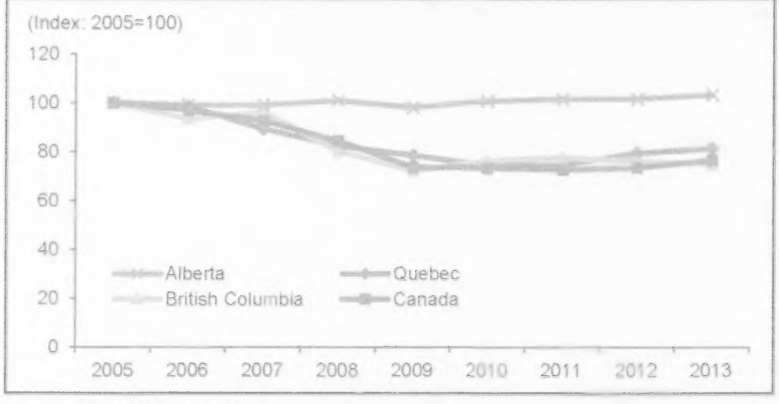
Like other provinces, Alberta's lumber industry was negatively impacted by the US housing slowdown and recession. In 2012, Alberta lumber exports were down 40% from their 2004 high, almost exclusively driven by a 41% drop in US-bound exports. Nonetheless, Alberta is the only larger producing province to retain, and even grow, its sawmill capacity since 2005 (Chart 2). Over the same

**Chart 1: Lumber Production**




**Source:** Statistics Canada

**Chart 2: Sawmill Capacity**




**Source:** Forest Economic Advisors

## About Alberta's Lumber Industry

Alberta is Canada's third largest lumber producer, behind BC and Quebec, representing roughly 14% of total Canadian production. Alberta's production focuses almost exclusively on softwood products with 82 mills operating in 2012 and producing a total of roughly 8 million cubic meters of softwood products. Most mills focus on the production of boards, dimension lumber, timber, poles & ties, and siding with 47% of the value of wood manufacturing activity dedicated to producing these products. In addition to lumber, mills act as feedstock for pulp mills.

The United States remains the largest export destination for Alberta's lumber products, with an estimated 28% of total production heading that way in 2012. Japan (2.5%) is the second largest purchaser of Alberta's lumber, while China (0.8%), the fastest growing partner in terms of demand, is third. Comparatively, Canada as a whole sees 40% of lumber production volumes head the US, 5% to Japan, and 14% to China.

**Source:** Alberta Environment and Sustainable Resource Development, "Economic Impact of Alberta's Forest Sector", 2012 and Statistics Canada.

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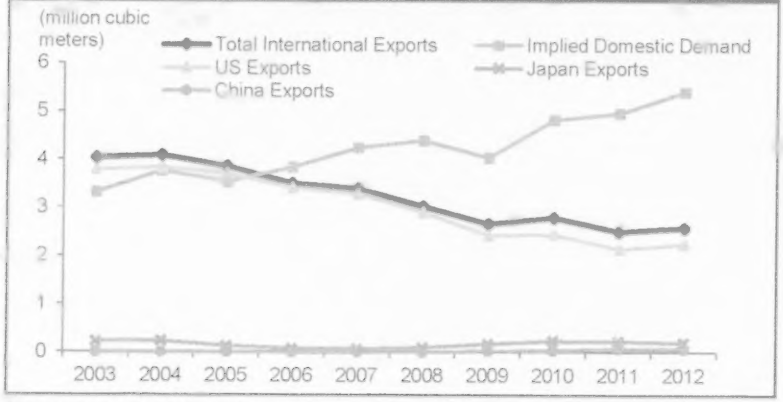
period, British Columbia and Quebec, the two largest lumber producing provinces, have experienced a significant drop in sawmill capacity, primarily due to mill closures. Alberta is also utilizing its existing capacity at a higher rate than other provinces. In 2012, capacity utilization (production as share of total capacity) was running at about 96%, compared with 90% or less in BC, Quebec, and Ontario.

## Expansion into Canadian markets supports Alberta's lumber industry

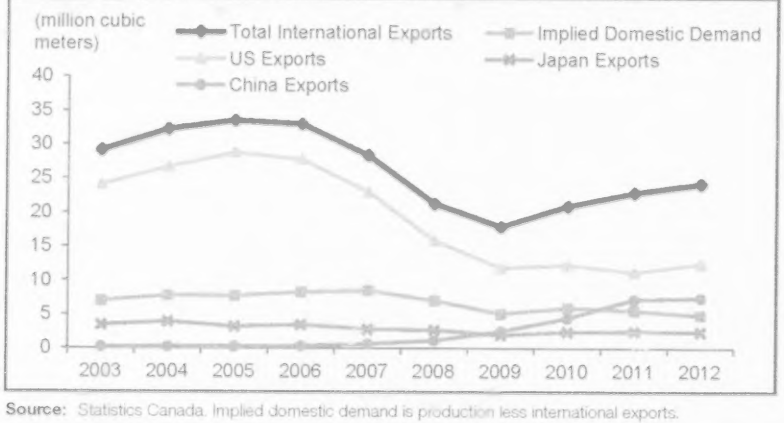
What accounts for Alberta's relative success at sustaining production? The main reason is that, unlike the rest of Canada, Alberta recorded its strongest gain in shipments to Canadian markets. Indeed, Alberta has experienced growth of 53% in domestic shipments since 2006 (Chart 3). In 2012, it is estimated that Alberta shipments grew to about a quarter of total Canadian domestic supply, the highest share on record. Most of Alberta's lumber shipments are used in residential housing construction and renovation, and since 2009, residential construction in Canada has been relatively strong. While Alberta's shipments to Japan and China have also increased sharply, these markets still account for a relatively small share of production at less than 5%. As such, despite being a high growth market, Asia does not explain why Alberta was able to increase its lumber production during this period, while other provinces did not.

**Chart 3: Alberta Lumber Production**




**Source:** Statistics Canada. Implied domestic demand is production less international exports.

**Chart 4: British Columbia Lumber Production**




**Source:** Statistics Canada. Implied domestic demand is production less international exports.

Outside of Alberta, there was a reorientation of Canadian lumber shipments away from domestic markets and to Asia, particularly from BC. As the rest of Canada's lumber capacity decreased, lumber shipments within Canada's domestic market waned. In BC, home to over half of Canada's lumber production, there has been a large drop in US and Canadian bound shipments since 2005 (Chart 4). In recent years, BC has partially made up for some of these declines by sharply increasing its lumber exports to China, which in nominal terms surpassed those to the United States for the first time in 2011. In fact, the volume of lumber exports from BC to China have seen a 35 fold increase since 2003, and now are more than three times higher than exports to Japan. China has paid competitive prices for a lower grade of lumber produced in BC and, to date, BC has been able to salvage much of the dead timber from the pine beetle infestation for lumber production.

British Columbia highlights what is a strong trend in the other Canadian provinces as well. As the housing crisis in the US unfolded, production of lumber products in the rest of Canada (outside of BC and Alberta) collapsed. This resulted in wide spread mill closures, and a corresponding drop in US and Canadian shipments. As a result, domestic shipments from these provinces fell sharply, by 30% between 2006 and 2012.

## Conclusion

This InFocus highlights why Alberta's lumber production held up relatively well during the recession and is now at record levels. Increased shipments to Canadian markets accounts for the Alberta's relative strength, in part because Alberta appears to have replaced some of BC's shipments, which have been re-directed to Asia.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